

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

**Interstate Power and Light Company** :  
: **02-0571**  
**Application for Approval of Affiliated** :  
**Interest Contracts.**

**PROPOSED ORDER**

By the Commission:

In this proceeding, Interstate Power and Light Company ("Petitioner" or "IPL") filed, with the Illinois Commerce Commission, an Application for Approval of Affiliated Interest Contracts pursuant to Section 7-101 of the Public Utilities Act ("Act"), 220 ILCS 5/7-101.

Pursuant to due notice and an agreed-to schedule, testimony was filed and a hearing was held in this matter on February 6, 2003 before a duly authorized administrative law judge of the Commission in its offices in Springfield, Illinois. Petitioner and Commission Staff ("Staff") appeared at the hearing. At the conclusion of the February 6, 2003 hearing, the record was marked "Heard and Taken." A proposed order was served on the parties.

**Background**

IPL is an Iowa corporation operating as a public utility in Illinois pursuant to the Act and as a public utility in Iowa and Minnesota. In Illinois, IPL supplies electric and gas service to customers in the northwestern portion of the state.

On November 10, 1995, WPL Holdings, Inc., IES Industries, Inc. and Interstate Power Company ("IPC") entered into an Agreement and Plan of Merger. After that, the name of WPL Holdings, Inc. was changed to Alliant Energy Corporation ("Alliant Energy").

Under the terms of the Merger Agreement, IPC, IES Utilities Inc., a wholly owned subsidiary of IES Industries operating as an electric and gas utility in Iowa, and Wisconsin Power and Light ("WPL"), a wholly owned subsidiary of WPL Holdings in Wisconsin, all became wholly owned subsidiaries of Alliant Energy.

Alliant Energy's direct non-utility subsidiaries include Alliant Energy Corporate Services, Inc, a subsidiary service company, and Alliant Energy Resources, Inc. ("AER"), which serves as the holding company for substantially all of Alliant Energy's investments in non-utility activities.

### **Relief Sought**

In the instant proceeding, IPL seeks approval, pursuant to Section 7-101 of the Act, of what it characterizes as two “assignment agreements” with its affiliate, AER. These transactions are described below. **Section 7-101(c)** of the Act reads, in part, as follows:

3) No management, construction, engineering, supply, financial or similar contract and no contract or arrangement for the purchase, sale, lease or exchange of any property or for the furnishing of any service, property or thing, hereafter made with any affiliated interest, as hereinbefore defined, shall be effective unless it has first been filed with and consented to by the Commission or is exempted in accordance with the provisions of this Section or of Section 16-111 of this Act. The Commission may condition such approval in such manner as it may deem necessary to safeguard the **public interest**. If it be found by the Commission, after investigation and a hearing, that any such contract or arrangement is not in the public interest, the Commission may disapprove such contract or arrangement. Every contract or arrangement not consented to or excepted by the Commission as provided for in this Section is void. (emphasis added)

The consent to, or exemption or waiver of consent to, any contract or arrangement under this Section or Section 16-111, does not constitute approval of payments thereunder for the purpose of computing expense of operation in any rate proceeding. However, the Commission shall not require a public utility to make purchases at prices exceeding the prices offered by an affiliated interest, and the Commission shall not be required to disapprove or disallow, solely on the ground that such payments yield the affiliated interest a return or rate of return in excess of that allowed the public utility, any portion of payments for purchases from an affiliated interest.

### **Proposed Assignment Agreements**

As indicated above, IPL seeks approval, under Section 7-101 of the Act, of what it characterizes as two “Assignment Agreements” with its affiliate, AER. Pursuant to these agreements, IPL will purchase certain equipment to be used in the construction of a “natural gas power plant” located in Mason City, Iowa. (Application at 2-3)

One contract, with Alstom Power, Inc. (“Alstom”), provides for the purchase of two heat recovery steam generators. The second contract, with General Electric Company Inc. (“GE”), provides for the purchase of two combustion turbine generators, and one steam turbine generator, with associated equipment. (IPL Ex. 1.1 and 1.2; Staff Ex. 1.0 at 2)

With regard to the Alston contract, AER originally entered into an agreement with Panda Energy ("Panda") to develop merchant generation projects in September 2001. Staff witness Rockrohr stated that Panda and AER were joint investors in Tallmadge Generation Company, LLC ("Tallmadge"). It is his understanding that the Tallmadge project is no longer justified on an economic basis due to the decline in wholesale power prices. Subsequently, Tallmadge acquired all of Panda's rights to the equipment and then agreed to an assignment of the equipment to AER at cost. According to Mr. Rockrohr, AER apparently could not find a higher valued use and has since agreed to the partial assignment of the heat recovery steam generators to IPL at cost. (Staff Ex. 1.0 at 2-3, citing IPL Exhibit 1.0 at 5-6)

Regarding the GE contract, Mr. Rockrohr stated that in June 2000, AER and Corn Products International ("CPI") jointly formed Argo Power LLC ("Argo"). Subsequently, CPI ended its partnership in Argo and Argo assigned the GE equipment to AER at cost. (Staff Ex. 1.0 at 3)

As noted above, IPL plans to use the equipment in a new generating plant in Iowa, called the Power Iowa Energy Center ("PIEC"), located near Mason City. IPL states that the PIEC is to be on-line for the summer of 2004. IPL also represents that all necessary approvals for the transactions and project in question have been received from the Iowa Utility Board ("IUB") and the Minnesota Public Utilities Commission.

With respect to the **equipment to be purchased** under the assignments, the GE Assignment provides for the assignment of two 7FA combustion turbine generators and one D11 steam-turbine generator and associated equipment. IPL says AER possesses all of the rights and responsibilities under the GE Assignment. Under a May 7, 2001 amendment to the original GE Agreement relating to two C-8 Steam Turbine Generators, the parties agreed to allow AER to purchase one D-11s 40" LSB Steam turbine design with a model 390H generator.

Under a November 2, 2001 amendment to the Agreement, AER elected to further amend the Agreement to change the configuration to a two X STAG207FA configuration by utilizing the D-11 33.5" LSB/324 steam turbine generator and an additional PG7241 gas turbine generator. AER and GE also agreed to defer shipment of certain deliverable components that IPL will use in the construction of a natural gas power plant located in Iowa.

The Alstom Assignment provides for the assignment of two heat recovery steam generators and associated equipment. After a series of agreements, AER received all right title and interest in and to the Equipment subject to the Alstom Assignment. As such, on July 24, 2002, Alstom issued a Notice to Proceed to AER for Equipment to be assigned to IPL in order to modify the shipping dates, design options and submittals showing technical changes in the Equipment to suit the needs of the Project.

As noted above, IPL plans to use the equipment in a new generating plant in Iowa, called the Power Iowa Energy Center, near Mason City, Iowa. The PIEC will use

three power-generating units in what is referred to as a two-on-one combined cycle configuration. This configuration includes the two General Electric Corporation ("GE") model PG7241 (7FA) combustion turbine-generator units, two Alstom HRSG, and one GE model D11 steam turbine generator. IPL alleges that as an integrated system, the Project will be capable of producing a nominal 568 MW of electricity, and will be primarily fired on natural gas with the ability to operate on No. 2 fuel oil as a backup.

The **price** to be paid for the equipment purchased under the Assignment Agreements is shown in attachments to IPL Exhibits 1.1 and 1.2, and in IPL Exhibit 1.10. Each Assignment Agreement provides that the "transaction between AER and IPL shall be an 'at cost' transaction." (IPL Ex. 1.1 at 2) Paragraph 13 of the application states that "AER will be paid by IPL for the equipment noted in that Agreement on the basis of AER's costs, including interest and carrying charges according to Attachments...of the...Agreement[s]." IPL Exhibit 1.10 lists the equipment costs to be paid by IPL, exclusive of interest, as \$78,300,408 for two combustion turbine units and \$21,036,578 for one steam turbine generator under the GE assignment, and \$24,612,490 for two heat recovery steam generators under the Alston assignment.

**IPL's position** is that the Assignment Agreements are in the public interest because they will allow IPL to use a comprehensive portfolio approach to meet energy demands throughout its service territory, including those customers in the State of Illinois. According to IPL, the Project will be operational by June 2004 and will provide flexibility of the generation with respect to IPL's dispatch portfolio. IPL also states that the Equipment is already in the design phase and is in the manufacturing queue. Therefore, IPL asserts, equipment that may have been long-lead items is available to IPL to incorporate into the PIEC in order to meet the operational date.

### **Supplementary Information Regarding IPL's Electric Resource Plan and its Proposal Evaluation Process**

IPL submitted supplementary information in this proceeding relating to its **electric utility resource plan**. This information is contained in IPL Exhibit 1.7, which includes portions of Appendix 4.0 from IUB Docket RPU-02-6, and in IPL Exhibits 1.8 and 1.9. According to IPL, it was required by the Iowa Utilities Board and the Minnesota Public Utilities Commission to submit an Electric Resource Plan that encompassed IEC Utilities Inc., Iowa and Wisconsin Power and Light Company and Interstate Power Company (jointly, "Alliant Utilities").

Alliant Energy, the parent of IPL, prepared an Electric Utility Resource Plan on a consolidated basis for the three Alliant Utilities identified above. IPL indicates that the Alliant Utilities serve just over 900,000 customers with a system peak demand of approximately 5,000 megawatts. IPL states that the Alliant Utilities own all or portions of 46 generating facilities throughout Iowa, Minnesota and Wisconsin that are capable of producing more than 5,200 megawatts of electricity. According to IPL, the Alliant Utilities' generating portfolio includes 19 base load plants fueled by coal, natural gas or nuclear as well as combustion turbines and diesel generators at 20 locations.

IPL indicates that the Resource Plan began with a load forecast that purportedly includes the needs of all firm customers of the Alliant Utilities. Tables showing annual energy forecasts, and summer peak forecasts for firm load, are contained in IPL Exhibit 1.9 at page 2-4. IPL states that the system load forecast plus a reserve margin was matched against existing capacity to determine the Alliant Utilities' resource needs. IPL says the Electric Generation Expansion Analysis System ("EGEAS") computer model was used to determine the optimal expansion plan, considering all combinations of existing resources and future resource alternatives.

According to IPL, the objective function within EGEAS is to minimize the cumulative present worth of revenue requirements for the 15-year planning horizon plus a 35-year extension period while maintaining an eighteen percent reserve margin in each year. IPL asserts that system reliability and financial risks must also be considered and that the ultimate goal is to minimize cost, maximize reliability and minimize risk. IPL indicates that with these objectives and with assumptions about underlying variables, such as renewable alternatives, Demand Side Management ("DSM") options and conventional supply-side units, a reference case is constructed.

According to IPL, DSM programs considered in its resource plan are categorized into two types of programs: conservation (non-dispatchable) and load management (dispatchable). IPL indicates that it performed preliminary screening on a variety of resource alternatives and ultimately evaluated DSM, purchased power, combustion turbines (natural gas and ethanol-fired), combined cycles (natural gas and ethanol-fired), fluidized beds, pulverized coal, wind and wood for its Resource Plan.

IPL states that the reference case developed using the EGEAS computer model, which considered the resources identified above for the base load forecast, was the lowest cost of all scenarios. IPL indicates that it also performed additional EGEAS modeling of different scenarios using different assumptions. IPL asserts that its Resource Plan is robust with a common theme in all scenarios including a mix of combustion turbines, combined cycles and coal units. IPL states that the size and timing of the new units change with different assumptions, but the selected technologies remain the same. IPL claims that diversity of fuels and technologies insulates against adverse movements in any one particular area, which IPL says is advantageous when attempting to minimize costs and yet manage risks when meeting customer needs. IPL contends that with a diverse portfolio, the Alliant Utilities can be more flexible in the level of risk assumed in a period of time when the electric utility industry is changing.

2001 Electric Resource Plan "Load and Capability Charts" for the period 2001 to 2016 on both a "before resource additions" basis, and an "after resource additions" basis "resulting from the Reference Case," are contained in IPL Exhibit 1.9. (IPL Ex. 1.9 at App. 4.0-1, pages 251 and 268) The reference case calls for the addition of 217 MW of combustion turbine capacity in 2003, 212 MW of combined cycle capacity in 2004 and another 212 MW of combined cycle capacity in 2005 for total additions of 641 MW during the three-year period.

As indicated above, IPL contends that the reference case developed using the EGEAS computer model was the lowest cost of all scenarios. A “scenario analysis” purporting to show the cumulative present worth of revenue requirements for the 15-year planning horizon plus a 35-year extension period for the “optimal expansion plan” and alternative expansion plans for which such analyses were performed is identified as “App. 4.0-1, page 266” in IPL Exhibit 1.9.

According to IPL, the proposed resource plan derived from the reference case calls for combustion turbine and combined cycle capacity in the years 2003 through 2005. IPL states that the Alliant Utilities would build or lease facilities in Iowa if the appropriate rate treatment were granted. In the event such rate treatment were not granted, IPL indicates that the Alliant Utilities would encourage new facilities to be built in Iowa through long-term purchase power agreements. IPL says that in either scenario, the Alliant Utilities’ customers’ needs would be met, system reliability within the region would be maintained, and customers’ rates would be kept as low as possible.

IPL states that the resource plan would be continually reviewed, as new information with respect to the Alliant Utilities’ resource needs becomes available.

IPL also provided supplemental information regarding the **bidding process** and the **proposal evaluation process**. IPL witness Mr. Mineck stated that the proposed Project is an intermediate load, combined cycle combustion facility capable of operating in simple cycle mode, and that IPL “put the Project up for bid when it first announced its plans to develop the Project.” (IPL Ex. 1.0 at 8-9)

The bid requests were in a Request for Proposals (“RFP”) issued November 30, 2001. The bids were solicited for firm capacity and energy from a new combined cycle plant with a nominal 500 MW capacity to be built in Iowa. IPL states that the bid was not site or equipment specific, and included three alternatives. First, bidders could bid a design/build turnkey plant to be owned and operated by IPL. Second, bidders could own and operate the plant and sell power to IPL through a 10-year purchased power agreement. Third, the bidders could propose a joint ownership arrangement, whereby the utility would own a portion of the plant and enter into a 10-year purchase power agreement for the remainder of the facility. (IPL Ex. 1.8 at 2)

In the Phase I bid evaluation process, proposals for purchase power agreements (“PPA”) and turnkey projects were evaluated and ranked. The phase I evaluation led to the selection of a “Short List” of bids deemed the most reasonable in meeting the resource needs of IPL.

IPL also evaluated its own “utility build” alternative in which it included the facilities and costs associated with the Assignment Agreements. (IPL Ex. 1.0 at 9-10) Cost adjustments were made to the Short List turnkey proposals and to IPL’s utility build proposals for purposes of putting the proposals on a common ground.

Economic & Attribute Evaluation Summaries were prepared comparing IPL's utility build proposal to the four turnkey proposals on the Short List. This evaluation purports to show that in terms of 2012 "total cost present value (\$/MWh)" and 2028 "total cost present value (\$/MWh)," IPL's proposal is the lowest cost alternative. (IPL Ex. 1.7, Attachment)

### **Staff's Analysis and Recommendation**

For Staff, Greg Rockrohr of the Engineering Department and Leslie Pugh of the Accounting Department analyzed the proposed transactions. For the reasons, and subject to the conditions, set forth below, Staff recommends that the subject assignments be approved.

One of the issues examined by Staff was whether IPL demonstrated that it needs additional generation **capacity** by the summer of 2004. Mr. Rockrohr testified that IPL provided a copy of the Application for Ratemaking Principles ("ARP") that it submitted to the Iowa Utility Board ("IUB") in IUB Docket RPU-02-6. In its ARP, IPL included system historical loads, estimated system load growth, available system generation resources by year, and testimony from various IPL witnesses in support of the PIEC. Some of this information was entered into the record in the instant proceeding, such as tables listing annual energy forecasts and summer peak forecasts. (IPL Ex. 1.9)

In Mr. Rockrohr's opinion, the information provided by IPL in its application and in its responses to data requests demonstrates that it will need additional generating resources of some type by the summer of 2004 to meet load and Mid-America Interconnected Network, Inc. ("MAIN") reserve requirements. (Staff Ex. 1.0 at 5)

Staff also evaluated whether IPL demonstrated that its utility-build option is the **least-cost** option to obtain the required generation capacity. If not, Staff reasons, then some company other than IPL should build the PIEC, and IPL would have no need for the equipment to be purchased in the Assignment Agreements. (Staff Ex. 1.0 at 4) Mr. Rockrohr stated that in its ARP, IPL provided a copy of its RFP, all the proposals submitted by third parties in response to it, and its own utility-build proposal. He said "IPL included its steps and rationale to develop a short list, and finally to determine that IPL's utility-build option is least-cost." (Staff Ex. 1.0 at 5) Mr. Rockrohr agrees with IPL's steps and rationale, and with its conclusion. He said that reviewing the bid process was important because the IUB does not require that the least-cost option be chosen to receive its certification, but instead requires that the utility demonstrate that a "reasonable" alternative be chosen.

Staff witness Rockrohr also addressed the question of whether IPL has demonstrated that "the price it plans to pay for the generation equipment through use of AER's contracts will not **unfairly benefit its affiliate** at the expense of its customers . . . ." (Staff Ex. 1.0 at 4) If not, Mr. Rockrohr reasoned, then IPL should obtain the necessary equipment from another source at a lower cost.

He testified that IPL provided opinions from two separate engineering consulting firms stating that the price IPL plans to pay for the equipment through use of the AER contracts is within the range of prices for "similar" equipment. He noted that both of these firms have had additional business relationships with IPL or its affiliates. IPL also provided information from an entity that had no other business association with IPL or its affiliates, Belyea Company Incorporated ("Belyea"). Mr. Rockrohr said Belyea corroborated the opinions from the engineering consultants. (Staff Ex. 1.0 at 6)

With regard to the Belyea comparisons, Mr. Rockrohr said that firm buys, sells, and lists generation equipment on the secondary market. In its report, Belyea included a list of available generation equipment of various functions and types, along with the year of manufacture and associated pricing. In addition to owning equipment itself, Belyea lists equipment on behalf of others. Notably, Belyea's list included three new surplus GE combustion turbine generators of the same type IPL plans to purchase from GE through the use of AER's contracts. The list of equipment provided by Belyea did not provide pricing comparisons for the GE steam generator or the two Alstom heat recovery steam generators that IPL plans to purchase.

Mr. Rockrohr stated that IPL's cost for the combustion turbines is lower through use of AER's contracts than if IPL were to pay the price asked by Belyea's client. He added that IPL did not attempt any negotiation with the owners of the GE combustion turbines listed by Belyea, so whether the seller may have accepted a lower offer is unknown. (Staff Ex. 1.0 at 7)

In Mr. Rockrohr's opinion, IPL has shown that the price it plans to pay for the GE combustion turbine generators is comparable to prices available for like or similar equipment on the secondary market, and is competitive. He believes IPL adequately demonstrated that the price it intends to pay for the critical equipment through use of AER's contracts would not unfairly benefit its affiliate at the expense of its ratepayers.

Staff witness Pugh addressed issues relating to the **payment and interest schedules** attached to the Alstom and GE Assignments. As noted above, the application states that AER will be paid by IPL for the equipment identified in that Agreement on the basis of AER's costs, including interest and carrying charges according to attachments to the Agreements. Ms. Pugh testified that AER had included the interest component of the cost associated with the assigned equipment to IPL "as likened to AFUDC." (Staff Ex. 2.00 at 3) She further testified that Allowance for Funds Used During Construction or "AFUDC" cannot be accrued until the approval of the subject assignments by this Commission. (Staff Ex. 2.00 at 3-4)

IPL did not take exception to Ms. Pugh's testimony on this issue. In addition, IPL submitted proposed journal entries to be made by IPL "to complete the transfer of...equipment" from AER to IPL. (IPL Ex. 1.6 at 1-2) These entries reflect no recording of interest payments to AER. IPL also agreed to submit the actual journal entries including account numbers made in relation to this transaction to the Chief Clerk of the



Commission and the Manager of the Accounting Department within 60 days of the effective date of the transfer.

Staff witnesses also stated that IPL is not seeking, in the instant docket, any “**rate recovery**” of the costs incurred in purchasing the equipment noted in the assignments. Ms. Pugh testified that IPL must file an application with the Commission for approval to include these costs in base rates (Staff Ex. 2.00 at 4, citing Section 7-101(c) of the Act), and that IPL must also comply with Sections 9-212 and 9-213 of the Act. She further testified that “approval of the costs associated with the equipment identified of these partial assignments in no way constitutes approval of these costs for ratemaking purposes.” (Staff Ex. 2.00 at 4-5) Ms. Pugh recommends that the “Commission’s Order state that it is not approving the cost or the rate recovery of the generating plant in this proceeding.” (Id. at 5-6)

In his rebuttal testimony, IPL witness Mr. Mineck agreed with Staff that IPL is not seeking rate recovery of the equipment in this proceeding, and that the Order should state that it is not approving the cost or the rate recovery of the generating plant in this proceeding. (IPL Ex. 1.5 at 2) IPL also represents that it will not recover from the ratepayers any costs associated with the PIEC until the Commission reviews the costs under Section 9-212 of the Act.

Staff recommends that the subject assignments be approved, subject to the conditions set forth above.

### **Findings and Ordering Paragraphs**

Having reviewed the record, the Commission finds that the proposed Assignment Agreements are in the public interest within the meaning of Section 7-101(c) of the Act, and should be authorized, subject to the conditions set forth herein. The authorizations granted herein do not constitute approval, for ratemaking purposes, of amounts expended by IPL in the purchase of the equipment pursuant to the Assignment Agreements or in the construction of the PIEC generating plant.

The Commission, having considered the entire record herein, is of the opinion and finds that:

- (1) IPL is an Iowa corporation, engaged in the sale of gas and electricity to the public of the State of Illinois, and is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over the parties hereto and the subject matter hereof;
- (3) the facts recited and conclusions reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact and law;

- (4) IPL's request for approval of the subject affiliated interest agreements between IPL and AER is in the public interest within the meaning of Section 7-101 of the Act, and should be approved, subject to the conditions set forth herein;
- (5) the proposed journal entries shown in the attachment to IPL Exhibit 1.6 are reasonable, and are consistent with the provisions of the Uniform System of Accounts, and should be approved;
- (6) the approvals granted herein do not constitute approval, for ratemaking purposes, of the costs of the equipment being acquired pursuant to the Assignment Agreements.

IT IS THEREFORE ORDERED by the Commission that IPL's request for authorization to enter into and carry out the terms of the subject affiliated interest assignment agreements between IPL and AER is hereby granted and "consented to" pursuant to Section 7-101 of the Act, subject to the conditions set forth herein.

IT IS FURTHER ORDERED that within 60 days of the effective date of the transfer of equipment pursuant to the subject Assignment Agreements authorized herein, IPL shall submit the actual journal entries associated therewith, including account numbers, to the Chief Clerk of the Commission and to the Manager of the Accounting Department of the Commission.

IT IS FURTHER ORDERED that the proposed journal entries shown in the attachment to IPL Exhibit 1.6 are approved.

IT IS FURTHER ORDERED that subject to the provisions of 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By proposed order of the Administrative Law Judge this \_\_\_ day of February, 2003.

Administrative Law Judge